

MINUTES

MONTANA SENATE 56th LEGISLATURE - REGULAR SESSION

FREE CONFERENCE COMMITTEE ON SENATE BILL 200

Call to Order: By **CHAIRMAN MIKE TAYLOR**, on March 30, 1999 at 8:56 A.M., in Room 413 Capitol.

ROLL CALL

Members Present:

Sen. Mike Taylor, Chairman (R)
Rep. Douglas Mood, Chairman (R)
Rep. Gary Beck (D)
Sen. Bob DePratu (R)
Sen. Mike Halligan (D)
Rep. Bob Story (R)

Members Excused: None.

Members Absent: None.

Staff Present: Jim Standaert, Legislative Fiscal Staff
Greg Petesch, Legislative Legal Division
Phoebe Olsen, Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: SB 200, 4/26/1999
Executive Action:

Jim Standaert, Legislative Fiscal staff handed out and explained **EXHIBIT(frs71sb0200a01)** and **EXHIBIT(frs71sb0200a02)**.

REP. STORY asked how the adjustment for inflation was made. **Mr. Standaert** explained he took the growth of wages and salaries and subtracted out inflation. The three scenarios showed the effects of changing the weight percentage between class 8 and wages. **Mr.**

Standaert noted the 13.8% increase in 1998 was from the development in Butte. **REP. STORY** asked if the average growth rate was 5.8%, or if that was from adjusted information. **Mr. Standaert** advised it was actual. If the 13.8% was averaged the rate would be reduced to 4.8%.

SEN. HALLIGAN asked how the trigger would be applied. **CHAIRMAN TAYLOR** stated that was the question. **SEN. HALLIGAN** asked what range the Governor was looking at. **CHAIRMAN TAYLOR** advised there was no set number, something within reason. **SEN. DEPRATU** wanted to know what was reasonable. **CHAIRMAN TAYLOR** stated in past negotiations they were looking at an ending fund balance of \$41,000,000.00.

SEN. DEPRATU felt the committee should use the middle scenario of exhibit 1 and use the language "reasonable ending fund balance increase". **SEN. DEPRATU** felt having a set balance would be difficult because the Legislature had control over the balance by spending. **CHAIRMAN TAYLOR** asked **Mr. Standaert** to draw out some cases.

The committee figured if there was 1/2% increase it would be \$2,080,000.00 over normal growth, or a 16% increase.

SEN. HALLIGAN asked if the term "wage growth" was used instead of something relating to the General Fund, what would happen. **CHAIRMAN TAYLOR** did not think there could be wage growth without a General Fund growth. **SEN. HALLIGAN** wanted something related. **SEN. DEPRATU** felt this was related. If the other components of the General Fund did not grow this would not work. **REP. STORY** advised business equipment taxes and livestock taxes would be contributing less. **SEN. DEPRATU** felt there was no way to foresee all the contributions to the General Fund, and wanted to see an "either, or" trigger. **REP. STORY** wanted wage and salaries and the class 8 not weighted equally.

CHAIRMAN TAYLOR stated the numbers roll from year to year. **REP. STORY** wanted to know how much growth there was in wages and salaries per year now. It grows by about \$30,000,000.00 annually.

SEN. HALLIGAN felt this might be too complicated, and this may not be a good idea. **SEN. HALLIGAN** wanted the General Fund stable enough to provide services money for services, and suggested the trigger be General Fund revenues. **CHAIRMAN TAYLOR** stated the General Fund was too easily distorted and greatly dependant on Federal tax policy. **CHAIRMAN TAYLOR** felt the ending fund balance was the best way to go.

Ms. Bryson felt the administration would be more comfortable with the audited ending fund balance. **CHAIRMAN TAYLOR** wanted to know how much variance there was between the ending fund balance and the audited ending fund balance. It fluctuated significantly depending on revenues and other expenditures. One example was the cost for fire seasons. *{Tape : 1; Side : A; Approx. Time Counter : 9:20}*

SEN. HALLIGAN asked for examples with the weighted assessed value ratio without ASiMI, the Butte development.

There was a question if components of the General Fund could be used for a trigger, verses the total General Fund.

REP. MOOD stated the purpose was to increase investment and wages, and the business equipment tax needed to be tied to that.

REP. MOOD felt revenues were secondary, and the trigger should not be tied to that. Income tax increases, class 8 property taxes, and the corporate tax mix should be the trigger indicator.

REP. STORY felt income tax could be affected by several other factors, and could not be used to track economic stimulation in the state. **SEN. DEPRATU** disagreed and thought income tax could be used to track increased economic development.

SEN. DEPRATU asked the simplest way to figure the class 8 tax.

Ms. Bryson handed out **EXHIBIT(frs71sb0200a03)**, the figures the committee requested. There was not a big impact with the \$5,000.00 exemption. *{Tape : 1; Side : B; Approx. Time Counter : 0}*

SEN. HALLIGAN stated he was still concerned with the percentage dropping so quickly.

The committee took a break so Fiscal staff could run figures using different scenarios. The Department of Revenue agreed with the triggers the committee was working on.

Motion/Vote: **SEN. HALLIGAN** moved **THE TRIGGER BE ATTACHED TO WAGES**. Motion carried unanimously. *{Tape : 1; Side : B; Approx. Time Counter : 10:00}*

SEN. DEPRATU stated it would need to be an average, without the high and low for the 1990 and 1992 year. The average was 2.65%

REP. STORY felt if 2.65% was used the next step would be to figure out how much growth would be acceptable. The base was \$9,000,000,000.00. The committee decided to use the last four

years average of 2.5%. The committee discussed several percentages, and decided a reasonable growth percentage would be 2.85%.

CHAIRMAN TAYLOR advised if the growth between 2000 and 2003 was not 2.85% the trigger would not take effect.

Greg Petesch, Legislative staff, advised the wording would be "the trigger would begin in any year beginning with the tax year 2004, the percentage of growth and inflation, adjusted Montana wage and salary income from the prior year is at least 2.85%, then the tax rate for class 8 property would be reduced by one percent per year, beginning with the tax year in which the percentage is reached, and continuing until the tax reached zero."

SEN. HALLIGAN felt it should be for "that year". That way if the economy did not continue to produce the expected numbers, the trigger could be stopped, and started again once the percentage was reached.

CHAIRMAN TAYLOR advised that was not the case. Once the trigger started it continued until the tax was zero. That has been the way the bill was designed from the start.

REP. STORY felt there should also be a hard number, not just an average. **REP. MOOD** agreed. **SEN. DEPRATU** felt comfortable with the 2.85%. **REP. BECK** stated the 2.85% was above the normal growth. The committee advised him that was incorrect. The normal growth was 2.65%, and once the growth hit 2.85% the trigger would be in effect. **REP. BECK** felt that was not enough growth to have the trigger begin. **SEN. HALLIGAN** asked how much in wages it took to get there. \$250,000,000.00 was the answer. Based on the average income of \$21,000.00 that would be 12,000 jobs. **REP. BECK** felt there would be that much growth alone. **CHAIRMAN TAYLOR** stated based on the Department of Revenue projections that was not the case, the current trend was going down.

SEN. HALLIGAN stated on 1/1/2004 there would have to be \$250,000,000.00 above the prior year of new growth to start the trigger. **Mr. Standaert** advised that would be correct. There was some discussion on incremental growth, and the starting point.

SEN. HALLIGAN asked how many millions of dollars wage and salary grew now. The current projection was with inflation, and the 2.85% was adjusted to remove the inflation. That would be real growth.

Motion: SEN. DEPRATU moved **THE TRIGGER BE 2.85% BASED ON A ONE TIME TRIGGER, AND USING MR. PETESCH'S LANGUAGE.**

Discussion:

{Tape : 2; Side : A; Approx. Time Counter : 0}

The number would be calculated using 2002, not the prior year.

CHAIRMAN TAYLOR felt 2002 was better than 2001. The concern was the projections were 2.3%, and in order to trigger it had to be 2.85%. The trigger was logical, definable and required a high enough "real" growth to occur.

Vote: Motion **carried 4-2 with Beck and Halligan voting no.**

SEN. HALLIGAN wanted the trigger date changed. **CHAIRMAN TAYLOR** felt the trigger mechanism is very strong, and if that kind of growth was seen there would be no need to change the date. The class 8 percentage would have to be phased in to three percent in order to stimulate the growth.

CHAIRMAN TAYLOR asked that out of state business not be given any more breaks to let this program help all businesses in the state. **SEN. DEPRATU** felt this would make the bill put it's money where the mouth was, and did not believe the 2.85% would be reached for several years. **{Tape : 2; Side : A; Approx. Time Counter : 10:41}**

REP. MOOD did not understand why the existing businesses were not given the same breaks new companies were given, and stated it was not fair to continue to give breaks to newcomers while making existing businesses pay the higher percent.

REP. BECK agreed business pay a lot in taxes, and believed all the tax shifting was going to hurt the small tax payer. **REP. BECK** felt the hole being dug was too big.

SEN. HALLIGAN agreed there was a partnership between government and business, and there was a need to be competitive. This was an investment in opportunity and like all investments there were consequences. **SEN. HALLIGAN** believed the transition from the four to the three should be slower to allow the investment to be annualized.

CHAIRMAN TAYLOR felt this tax was paid even if the companies did not make money, and stated if corporate taxes were increased it would not be a problem since that was a tax on a profit. This cut had a chance to generate revenue, where the other taxes did not create economic stimulation.

Mr. Petesch stated he understood the committee was accepting the Governor's amendments with these changes. **CHAIRMAN TAYLOR** advised that was correct.

SEN. HALLIGAN asked if the businesses would have to report equipment under \$5,000.00. The committee decided they would.

Mr. Petesch stated the trigger was changed to start at 3% in the year 2003, and the trigger was at 2.85%.

ADJOURNMENT

Adjournment: 11:00 A.M.

SEN. MIKE TAYLOR, Chairman

Phoebe Olsen, Secretary

Shannon Gleason, Transcriber

MT/DM/

EXHIBIT (frs71sb0200aad)